United Nations E/ICEF/2014/AB/L.3

Economic and Social Council

Distr.: Limited
4 April 2014

Original: English

For discussion

United Nations Children's Fund
Executive Board
Annual session 2014
3-6 June 2014
Item 8 of the provisional agenda*

UNICEF management response to the annual report of the Office of Internal Audit and Investigations for 2013

Summary

The present report is submitted to the Executive Board in accordance with decisions 2010/17, 2011/21 and 2012/13. It presents the management response of UNICEF to the annual report of the Office of Internal Audit and Investigations for 2013 (E/ICEF/2014/AB/L.3).

A status update on implementation of recommendations from earlier audits that have remained unresolved for 18 months or more is provided in the annex to the present report.

* E/ICEF/2014/5.

14-29082 (E) 170414

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I. Introduction

1. This report has been prepared by the management of UNICEF in response to the Office of Internal Audit and Investigations (OIAI) annual report for 2013. The report outlines the steps that management has taken to address the key issues identified in the audits and investigations undertaken by OIAI in 2013, as summarized in their annual report.

2. The management of UNICEF is committed to having an effective internal audit and investigations function and to having OIAI carry out its activities in accordance with its Charter. UNICEF management welcomes the strong leadership provided by the new Director and Deputy Director of OIAI, both of whom took up their posts in 2013.

3. Management appreciates the quarterly reporting by OIAI on the status of the implementation of its annual workplan and on the follow-up to its recommendations. The quarterly reporting enhances the capacity of management to monitor the implementation of audit recommendations in a systematic manner.

4. UNICEF welcomes the valuable contribution of the UNICEF Audit Advisory Committee (AAC) in reviewing and commenting on OIAI workplans and reports and in providing general advice. The specific advice by the AAC is addressed in section VI of this report.

5. Management notes that 51 internal audit reports were issued in 2013, with 129 high-priority recommendations out of a total of 517 recommendations. This is a significant increase over the 28 reports issued in 2012, with 71 high-priority recommendations out of a total of 236 recommendations. Management appreciates the increased number of audits carried out and the consequent increase in assurance that this brings, and notes that the ratio of high-priority recommendations to the total number has decreased slightly, from 30 per cent in 2012 to 25 per cent in 2013.

6. UNICEF notes that in 2013 an independent quality assurance review confirmed that OIAI was *generally compliant* with both the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA) and the Uniform Guidelines for Investigations (endorsed by the 10th Conference of Internal Investigators in 2009). Management is pleased to note that *generally compliant* is the highest rating given by the IIA.

II. Public disclosure of internal audit reports

7. Pursuant to Executive Board decision 2012/13, all internal audit reports are now subject to public disclosure. The same decision provides for the Executive Director and Member States to request the Director of OIAI to redact or withhold reports on certain conditions. Of the 44[1] audits publicly disclosed in 2013, the Executive Director requested that two be redacted, as certain paragraphs in one of the two reports were particularly sensitive, and the other report contained

[1] The 44 audit reports disclosed in 2013 included some 2012 reports, as there is a period of time required by the Executive Board decision between the issue of a report and its disclosure, so that affected Member States and the UNICEF Executive Director may comment. For the same reason, not all reports issued in 2013 can be disclosed in 2013.

paragraphs that might compromise a pending action or the security of the organization. The Executive Director also requested that three audit reports be withheld due to a pending action in one, and potential threats to the security of the organization in the other two. The Director of OIAI agreed with the requested redactions and withholding of reports. Management also notes that the Director of OIAI exercised her discretion to place two recommendations with security implications from two reports into confidential letters that are not subject to disclosure.

III. Management actions and plans to address overall findings

8. The OIAI annual report lists five audit recommendations unresolved for more than 18 months, as of 31 December 2013. Management notes that follow-up actions have since led to closure by OIAI of one of the recommendations, pertaining to the audit of the Plurinational State of Bolivia country office. Details of follow-up action on the four remaining recommendations are contained in the annex to the present report. In summary, one recommendation from the audit of staff rotation remains open pending the issue of a revised rotation policy. A draft policy has been developed and is at the final stage of clearance. Management anticipates that it will be issued in the third quarter of 2014. The remaining three recommendations relate to the audit of the framework for managing policies, which was issued in June 2012. Management anticipates that the actions detailed in the annex will be completed by the end of 2014.

9. UNICEF management notes that of the 51 audits issued in 2013, 30 had a moderately qualified conclusion (or satisfactory, as it was called prior to a change in nomenclature in 2011), 20 had a strongly qualified conclusion and one had an adverse conclusion. Management notes that the single adverse conclusion was of an audit of a specific function in a country office, and that no Country Office received an adverse overall rating. This is a significant improvement over the previous three years where a total of 10 country offices or divisions received unsatisfactory or adverse overall ratings. Management reviews all audit reports carefully and notes that while an unqualified or moderately qualified rating signals that OIAI was satisfied that controls and processes were generally established and functioning as intended, management still systematically tracks the follow up to ensure that all recommendations are fully implemented in good time, and are sustained. UNICEF pays particular attention and closely focuses on those country offices and divisions that receive an audit report with a strongly qualified or adverse ratings. The Executive Office has written to country representatives or directors who receive adverse or unsatisfactory ratings expressing its concern and emphasizing the need for stronger management and improved performance. Starting in 2014, the Executive Director will also write to country representatives or directors who receive strongly qualified ratings to further emphasize the need for strong management for results. The UNICEF Enterprise Risk Management (ERM) framework identifies 12 risk areas. OIAI has made most of its recommendations in relation to seven of those risk areas. Of the 51 audit reports issued by OIAI, the most significant findings overall (approximately 70 per cent of all high-risk recommendations) were in the four following risk areas: results-based management and reporting, budget and cash management, governance and accountability, and

supply and logistics. Almost half (44 per cent) of the high-priority recommendations were made on the specific area of results-based management and reporting.

Results-based management and reporting

10. This risk area covers support to implementation and monitoring of programme implementation (which includes the Harmonized Approach to Cash Transfers, or HACT). To address these findings, management has taken or is planning to take the following actions:

(a) The roles and responsibilities regarding HACT for headquarters and regional and country offices have been articulated in a revised UNICEF policy issued in April 2014 together with the revised HACT framework of the United Nations Development Group. Establishing clear roles and responsibilities will support broad ownership and effective HACT management. The policy more clearly defines roles for both the Division of Financial and Administrative Management (DFAM) and the Division of Policy and Strategy (DPS), which will strengthen integrated management of financial, operational and reputational risks;

(b) Management at headquarters and regional levels has jointly developed a Global HACT Strategy for 2014-2017, which will be supported by a $20 million dedicated investment to strengthen HACT management oversight capacity. The strategy focuses on implementation and capacity-building activities that are regionally defined and makes transitional provisions to allow offices time to fully implement the new HACT policy. Approximately $19 million of the $20 million investment will be spent strengthening the capacity of country and regional offices. This strategy includes the development of performance monitoring indicators, analysis of results of the relevant offices, and identification of opportunities for improvements. In addition, tools required to proactively monitor performance, risks and compliance with internal controls (such as dashboards, system enhancements and reports) will be developed in partnership with the Division of Information Technology Services and Solutions (ITSS). Performance indicators have already been established and have been communicated in the revised HACT policy and procedures. Analysis of the results is an ongoing process. Tools to monitor performance, risks and compliance with internal controls, such as dashboards, are being developed for use by country offices;

(c) Immediate and transitional measures to capture performance data have been put in place. Indicators will be monitored by country offices inputting performance data using the new HACT interface, located in inSight (the performance management system of UNICEF that draws data from a variety of corporate systems and presents them in a "dashboard" format). Data captured in conjunction with information already available in VISION, or the Virtual Integrated System of Information, will be incorporated into country, regional and global dashboards. The HACT Management Platform will be tested during 2014, with roll-out to take place towards the end of 2014;

(d) Following the work of the Peer Review Group,[2] a revised supplement on budget policy was issued by the Comptroller, which included a greater focus on

[2] The Peer Review Group on Results-Based Management for the UNICEF Strategic Plan, 2014-2017, consisting of Member States and other United Nations agencies.

results. Updated guidance on the development of country programmes was released. This reinforced the linkages between results and budget planning;

(e) The Division of Policy and Strategy has focused on Results-Based Management and Results-Based Budgeting (RBM/RBB) in its 2014 workplans and in the guidance it issues. Five web-based training sessions on these topics were conducted with regional and country offices. At least 90 per cent of offices have participated in each of the five sessions. Most offices had more than one person participate (usually the Deputy Representative, a monitoring and evaluation specialist or a planning specialist). A new website for interactive discussions on RBM/RBB has also been launched, and a new e-learning package will be launched in May 2014.

Budget and cash management

11. This area includes financial management, budgeting, accounting, bank reconciliations and financial reporting. To address these findings, management has taken or will take the following actions in 2014:

(a) Through diligent monitoring of corporate investments, investment counter-parties and duration, Treasury will continue to meet the liquidity requirements of UNICEF while maximizing the investment returns with counter-parties approved by the Financial Advisory Committee. Efficiency will be increased by the automation and implementation of improved monitoring programmes, which will replace what were very time-consuming manual processes. The new monitoring programmes will be in place by the third quarter of 2014;

(b) DFAM is focusing on increasing the efficiency of country offices' currency and cash management, both for optimized conversion of local currency requirements (i.e., minimizing spreads and fees paid to financial institutions, thereby increasing funds available for local programmes and initiatives) and monitoring cash balances to maintain optimal levels. This will enable DFAM to proactively address country offices' cash needs and related issues in 2014.

Governance and accountability

12. This includes supervisory structures and the establishment and functioning of mandated statutory committees and advisory groups. Management has taken or will take the following actions:

(a) Mandated statutory committees and advisory bodies, such as the Country Management Team (CMT), Contracts Review Committee (CRC), Property Survey Board and Central Review Bodies (CRBs) are a key component of the risk control framework of UNICEF at country level. Management considers the effective functioning of such bodies to be a high-priority responsibility of country representatives. Monitoring the frequency and efficiency of statutory committees and advisory bodies at country level is a key accountability of regional directors. All headquarters divisions have worked to strengthen the functioning of such committees and groups in their respective areas. Supply Division (SD) has focused on CRCs (see "Supply and logistics" below). The Division of Human Resources (DHR) has directly trained 80 members of CRBs and provided training materials to a further 145 members in the past year. DPS, together with regional offices, trained 796 field staff in UNICEF Programme Planning Processes (PPP) in 2013, which

addresses the importance of statutory committees and advisory bodies generally, and CMTs and Programme Management Groups in particular. Management and DPS are working to adjust the PPP. UNICEF management will build monitoring of statutory committees and advisory bodies into the inSight performance management dashboard system in 2014;

(b) To further reinforce the accountabilities for effective functioning and oversight of committees and bodies, the Deputy Executive Director for Management will write to all senior managers, including all country representatives, regional directors and division directors, reminding them of the importance to the control framework of well-established and functioning mandatory statutory committees, advisory groups and other bodies.

Supply and logistics

13. This area covers procurement and contracting, transport and delivery, warehousing, consultants and contractors and payments. To address the recommendations in this area, management has taken or will undertake the following action:

(a) In 2013, SD trained 200 staff members from headquarters, regional offices and country offices in procurement, contracting of services, warehouse and inventory management, and project management. Among other things, this training addressed the establishment and effective operation of the CRC, which is one of the organization's most important statutory committees. SD also conducted a review of compliance with procurement rules and procedures in mid-2013, and results were shared with offices where any non-compliance was detected. The compliance review of 2012 found that 80 offices (at all levels) needed to strengthen their segregation of duties in relation to transactions in VISION. SD wrote to all offices, and 75 have responded indicating they have addressed the weaknesses. The compliance review is currently being finalized for 2013, and the Director of Supply Division will be writing to all heads of office with the results and priority actions by June 2014;

(b) The regional supply advisers from the West and Central Africa Regional Office (WCARO) and the Eastern and Southern Africa Regional Office (ESARO) each conducted 35 country office visits to provide operational/technical support as well as perform the usual regional office oversight and quality assurance functions in the supply and procurement area. SD staff were deployed to 95 offices in 2013 to provide technical and operational support.

14. As part of the 2014-2017 UNICEF Strategic Plan, Supply Division will take the following actions:

(a) Strengthen and optimize key supply chains with Governments (and suppliers, freight forwarders, implementing partners, country offices, regional offices and potential funders) for targeted products and locations to reduce costs, stock-outs and/or wastage and improve performance to achieve results;

(b) Build capacity of staff working in the supply function via an expanded syllabus of study on supply and exchange of knowledge and experience via forums, including HotSpots (online discussion forums and other communities of practice), and the like, which are part of the UNICEF Supply Community Platform, open to all UNICEF staff;

(c) Real-time monitoring of SD's performance via the enhanced Key Performance Indicators scorecard, the SD Results Matrix.

IV. Management actions and plans to address recommendations of country office audits

A. Overview

15. UNICEF management appreciates the continued attention given to governance, programme management, and operational support in the audits of country offices, and the findings reported by OIAI. UNICEF is committed to improving performance and strengthening management for results, in all audited areas. UNICEF management notes that each audit report included a plan developed by the country office (with support and oversight of the regional office) and agreed with OIAI, which specifies the action to be taken to address each audit recommendation.

16. The OIAI annual report notes that 448 recommendations, with 113 high-priority actions agreed, were made during audits of country offices during 2013. The highest frequency of recommendations and agreed actions to address those recommendations at the country office level are in the areas of results-based management and reporting and of governance and accountability.

B. Actions to strengthen controls in country offices with significant high-risk recommendations

17. The support given by the regional offices following country office audits led to improvements in the governance and accountability in the management of those offices. Country offices that were audited were given special attention by regional offices, and follow-up and on-site support has been provided to help those offices address specific recommendations. Further, regional offices have enhanced the use of inSight and its regional dashboard indicators and monitoring reports to strengthen monitoring and oversight of country programmes. Regional offices continue to hold country office representatives accountable for the governance of their offices and the effectiveness of the systems put into place.

18. Regional offices participate in audit exit meetings to obtain a first-hand understanding of issues identified and to assist country offices to develop action plans. Early engagement helped regional offices to provide off-site support and monitor the implementation of action plans. The status of implementation of agreed action plans was among the key performance indicators monitored by regional offices, on a quarterly basis.

19. HACT has been identified by all regional offices as a top regional priority for 2014. Regional and country offices continue to strengthen HACT implementation, including the expansion of technical assistance from regional offices, through additional funding in the 2014-2017 management budget. WCARO has been engaged with DFAM and DPS in developing a global and regional strategy for improving HACT implementation and compliance in the region. For example, WCARO has included HACT-related tasks in the e-PAS (the UNICEF electronic performance appraisal system) of all relevant staff. Strengthening regional

operations and programme capacity to support HACT implementation is a key concern of the East Asia and Pacific Regional Office. To strengthen national capacity, that office has taken various steps, including joint implementation with partners.

20. Most of the country office audits with high-priority recommendations in ESARO reported significant challenges in the implementation of HACT and the management of cash transfers. Capacity to carry out nuanced risk analysis and develop appropriate mitigation measures across operations and programmes will be given increased attention by ESARO. Further, the 2014-2017 Regional Office Management Plan established two new staff positions on risk management and quality assurance in the regional office team.

21. The Middle East and North Africa Regional Office has provided support to country offices for the implementation of an assurance plan that specifies the nature and frequency of assurance activities and training on HACT for both staff and implementing partners in three country offices. In 2013, 117 UNICEF staff members and 46 implementing partner staff members were trained in the region.

22. The Latin America and Caribbean Regional Office conducted a survey in January 2014 to gather information on the status of HACT implementation and bottlenecks in each country. The regional office is analysing the responses from all countries and will identify further actions to address the constraints found.

23. The Regional Office for Central and Eastern Europe and the Commonwealth of Independent States has supported and monitored the development of new macro-assessments in response to the lack of available macro-assessments in the region. The regional office continues to work with country offices in incorporating the risk profiles of partners that have been micro-assessed into the integrated HACT assurance plans.

24. WCARO staff in supply, human resources and operations have been closely involved with country office management on the resolution of problems identified during the Sierra Leone audit. A joint regional supply and human resource mission was undertaken to Sierra Leone to address performance issues and check on the progress in implementing the workplan to address the audit recommendations. Human resource measures have been taken to strengthen the supply team in Sierra Leone. The regional office endorsed the OIAI proposal to conduct a broader-scope audit of the Sierra Leone office in 2014. Further, a newly established Contracting Officer post will provide expertise and help to reduce risk in the procurement of services for the Sierra Leone country office.

25. In the East Asia and Pacific region, country offices with significant volumes of procurement through the regional office are required to submit supply plans by the first quarter of the year to provide for advance market search and supplier identification. Further, performance evaluations of consultants are prepared prior to final payments and are used to update the rosters of service providers.

26. The Regional Office for South Asia continues to support improvements in programme performance assessment and reporting, including the quality assurance of evaluations and results reporting. The regional office is further assisting the Afghanistan country office, which received 75 per cent of the high-priority recommendations in the region, to make programme and operational adjustments to improve school construction activities.

V. Management actions and plans to address recommendations regarding headquarters, regional offices, joint audits, and advisory services

A. Audits undertaken prior to 2013

27. Only four audit recommendations made prior to 2013 regarding headquarters, regional office and thematic audits were open as of 31 December 2013, as mentioned in the OIAI annual report. Details on progress made in closing those recommendations is contained in the annex to the present report.

B. Audits undertaken in 2013

28. OIAI issued seven audit reports of headquarters divisions, regional offices, themes and systems, and two joint reports with other United Nations agencies. The seven reports made 69 recommendations, of which 16 were high priority. 14 high-priority and 46 of the remaining 50 recommendations were closed as of 31 March 2014.

29. ***Baseline security in the UNICEF ERP System***. The audit assessed the ERP baseline security of UNICEF and its protection of the confidentiality and integrity of data and programmes. The audit made three high- and three medium-priority recommendations to ITSS. Management agreed and has created a dedicated, specialized function for ERP security and updated procedures. ITSS reports that all of the high-priority recommendations have been actioned. One of the high- and one of the medium-priority recommendations were formally closed as of 31 March 2014.

30. ***User access controls and segregation of duties***. The audit assessed UNICEF processes to detect and prevent unauthorized access and alterations in the VISION ERP system through weaknesses in user access controls, and made five high- and five medium-priority recommendations. Management agreed to all the recommendations and has implemented all of the high-priority and four of the medium-priority recommendations. In particular, regarding segregation of duties, management has achieved a substantial reduction of role-assignment conflicts, which are now at an acceptable level. The recommendation (medium-priority) for implementation of a global Governance, Risk and Compliance tool is pending the requisite resource allocation.

31. ***Procurement on behalf of other organizations and governments by Supply Division***. This audit found that controls over procurement on behalf of other organizations and governments were generally functioning, and did not make any high-priority recommendations. However, OIAI did make six medium-priority recommendations regarding some systems and processes for governance, accountability, performance monitoring, IT and workflow. Management agreed with and has taken action on all of the recommendations.

32. ***UNICEF Treasury Management***. OIAI's audit of Treasury management covered a number of areas, including risk management, safeguarding of financial assets, optimization of investment returns and reporting. It found controls generally functioning, and noted several positive practices, including a comprehensive foreign

currency risk management strategy. The audit made two high-priority recommendations. The first was for DFAM to ensure that VISION configuration and reporting issues were resolved so that IPSAS disclosure requirements were automated. The second was for DFAM to ensure that the quality control measures for Vendor Master Database maintenance are strengthened, and to consider the centralization of this function. The Treasury project, which will address this high-priority recommendation as well as five medium-priority recommendations, is progressing as planned. The required SAP Treasury analytics modules licenses have been acquired and the first gaps-identification phase for implementation has been completed. The objective is to have the project completed by the end of the third quarter of 2014. The Treasury project also will address all bank master data issues raised in the audit. However, the responsibility for vendor master data is cross-divisional and involves country offices as well, and is being addressed in the functions of the forthcoming Global Shared Services Centre.

33. ***Public Sector Alliances and Resource Mobilization Office (PARMO)***. PARMO has the lead responsibility in UNICEF for overall resource mobilization from public sector donors. The audit found controls over PARMO generally functioning and identified some satisfactory practices, including the availability of guidance for country offices on fundraising, and clear demarcation of responsibilities for donor engagement. However, OIAI and management agreed on two high- and eight medium-priority actions, including for a revised executive directive setting out a strategic vision for UNICEF resource mobilization, and a strategy at global level to improve donor reports. A first draft of the fundraising strategy on which the executive directive will be based, was presented to the Global Management Team in February 2014. Management anticipates that all agreed actions will be completed in 2014.

34. ***Office of Research***. This audit was issued in December with two high-priority and five medium-priority recommendations. The most important recommendations were to: (a) issue an executive directive setting out a policy on research that defines the office's mandate and reporting requirements; and (b) review the office's funding mechanisms. Work has started on both, and management is confident that all actions will be completed in 2014.

35. ***East Asia and Pacific Regional Office (EAPRO)***. The audit of EAPRO identified a number of positive practices, including a broad range of measures to improve emergency preparedness, support to country offices on risk-informed planning, support to programme monitoring, attention to ethical conduct and behaviour, and adequate procedures for financial and property management. The audit made two high-priority recommendations concerning cash transfers to partners, and procurement processes, and 15 medium-priority recommendations. EAPRO management has completed the agreed actions related to procurement processes and submitted them to OIAI for closure. An action plan has been developed to address the issues related to HACT and is awaiting funding. Management is confident that all agreed actions will be completed within the agreed time frames.

C. Advisory services undertaken in 2013

36. Management values the guidance on risks and controls that OIAI's advisory work provides. Advisory services assist management in ensuring timely intervention on issues of concern. OIAI issued four advisory reports, and completed an additional two advisory service engagements for which no reports were issued.

37. Three of the advisory engagements were related to cross-cutting areas in UNICEF: (a) a User Assessment of VISION Implementation; (b) input to the efforts to strengthen implementation of HACT; and (c) participation in discussions and consultations on updating the regulatory framework. The other three advisory engagements related to issues in specific country offices, including: support to Sierra Leone country office in settling a dispute with a clearing and forwarding company; follow-up on the progress made by UNICEF in managing a shipment of infested corn soya blend in the Somalia country office; and assisting the Somalia country office by reviewing the liquidation documents supplied by an implementing partner.

38. The advisory services provided by OIAI have assisted management. The results of the User Assessment of VISION were shared with the VISION Steering Committee (and with the VISION owners group, which took over from the Steering Committee in late 2013) and improvements to the ongoing training programmes and communications strategy were made based on the advice. The advice on strengthening HACT implementation was used in developing the actions detailed in this report. OIAI's advisory services were particularly helpful in the inter-agency work, which is fundamental to HACT. OIAI participated in the Review of the Regulatory Framework Task Force and provided important advice on risk control and compliance in a regulatory context.

39. The advisory services provided by OIAI at country level assisted the Sierra Leone country office in settling a dispute with a clearing and forwarding company, which involved multiple claims and counterclaims by both parties. The matter was resolved without loss to UNICEF. With respect to the Somalia county office, the advisory engagement from OIAI provided valuable assistance to management with regard to, among other things, disposal of the defective supplies. The country office also requested OIAI's assistance with liquidation and reimbursement of claims by an implementing partner. OIAI reviewed the documents and developed terms of reference for a further forensic analysis, which is ongoing and will be completed in 2014.

D. Joint audits and inter-agency audits

40. OIAI undertook two audits jointly with other United Nations agencies in 2013. UNICEF management welcomes this initiative as an important contribution to United Nations system-wide coherence.

41. OIAI conducted an audit of the Pooled Fund for humanitarian activities in the Democratic Republic of the Congo, which is intended to give the United Nations greater ability to raise and deploy funds for the most critical humanitarian needs. The audit found that the UNICEF office's controls over its activities related to the Pooled Fund were generally functioning, and noted that the office had developed an innovative and flexible approach to responding to emergencies. The audit did not

issue any high-priority recommendations. However, it did issue four medium-priority recommendations connected with cluster coordination, monitoring of emergency response, and cash transfers. Three of those recommendations were implemented in 2013, and the fourth is with OIAI for formal closure.

42. OIAI participated in a joint audit of the Cape Verde Joint Office (CVJO) led by the United Nations Development Programme (UNDP) with the United Nations Population Fund (UNFPA) and the United Nations Office on Drugs and Crime (UNODC). The audit report was issued by UNDP to the Administrator and Chair of United Nations Development Group (UNDG), with the recommendations addressed to the United Nations Resident Coordinator. As well as addressing Joint Office issues, the audit also made a number of recommendations on the joint programme. The audit identified seven high-risk areas (including one on HACT assurance). An independent evaluation of the CVJO is proposed for 2014. This was recommended by the Independent Evaluation of the global Delivering as One strategy in 2012 and agreed to by the Secretary-General. UNICEF supports the independent evaluation of the CVJO and looks forward to receiving the results. UNICEF management in headquarters and in WCARO are liaising with UNDG on the implementation of the audit recommendations.

VI. Management actions to address the findings of investigations

43. UNICEF has a policy of zero tolerance of all forms of fraud and corruption and is fully committed to ethical practices. The organization strongly encourages reporting of misconduct and will protect staff from all forms of harassment and reprisals for whistleblowing. The Executive Director issues an annual memo to all staff reporting the disciplinary actions taken by UNICEF to address proven wrongdoings by staff.

44. In February 2013, the online basic ethics awareness course, developed by UNODC, was made mandatory for all staff at levels P 5 and above, as well as deputy representatives, chiefs of operation and chiefs of zone offices, regardless of their level. The Ethics Office monitored compliance and corresponded with offices to improve compliance. As of mid-January 2014, 78 per cent of staff in the mandatory category had completed the course. Among other staff, 30 per cent had taken the online course. Some offices have made it mandatory for all staff. In addition, a total of 1,660 staff members were trained by the Ethics Office using a combination of face-to-face and web-based methods during 2013. Out of the 1,660 staff, 216 went through a training geared towards senior managers on creating and maintaining an ethical organizational culture. Supply Division also conducted training procurement and contract management. Integrity in procurement and contracts management is part of the basic training package. In 2013, SD trained a total of 112 staff members on integrity issues, 93 of whom were from divisions outside SD. In 2014, UNICEF plans to launch a new online course, mandatory for all staff who have not taken one and to all new staff. The Ethics Office, jointly with regional offices, has started training facilitators in Country Office Ethics Essentials. The aim is to foster short but frequent discussions on ethics in UNICEF offices. UNICEF will continue to encourage and enable a culture where staff feel confident and are empowered to speak up when they see wrongdoing or other unethical behaviour.

45. A dedicated Investigations Unit in OIAI carries out investigations in accordance with the Uniform Principles and Guidelines for Investigations, and in conformity with due process principles, as laid out in chapter X of the United Nations Staff Regulations and Rules. The established channels, including a dedicated anonymous email address (integrity1@unicef.org) are being used to bring concerns and allegations of wrongdoings to the attention of OIAI.

46. Management notes that 127 allegations of wrongdoings were reported in 2013 compared to 62 in 2012. In addition, 21 allegations were carried over from 2012, making a total of 148 allegations managed in 2013. All 21 of the allegations carried over from 2012 and 82 of those reported in 2013 were closed in 2013, for a total of 103 cases closed in 2013, with 45 carried forward to 2014.

47. Management notes the substantial increase in allegations made to OIAI and investigations carried out. Management views this increase positively, as it likely indicates a positive impact of the ongoing ethics training and the increasing willingness of staff to report suspected fraud and other wrongdoing. Management also notes positively that some of the increase is due to a more accurate recording of incoming matters by OIAI, which is now aligned with that of other United Nations agencies, and that some of the increased caseload is due to OIAI now investigating third-party fraud in accordance with the new UNICEF policy on Prohibiting and Combating Fraud and Corruption, issued in August 2013.

48. Management notes that of the 103 cases closed in 2013, 26 were referred to another UNICEF office, United Nations body or local authority. Management confirms that none of these cases involved a loss of funds or property to UNICEF.

49. Managements notes that where an investigation of wrongdoing is discontinued against a staff member because she or he separated from the organization, if a loss has occurred, efforts are continued to recover that loss. In addition, an analysis is conducted to identify and remedy any control weaknesses exposed by the wrongdoing, despite the separation of the staff member.

50. Management notes that five cases were closed because the subject left the organization. Of these five cases, three involved attempted fraud but did not result in any loss to UNICEF. One involved theft of UNICEF property, but all property was recovered and one involved harassment and entitlement fraud of $136.20, which was recovered from the staff member's final emoluments. There was no loss to UNICEF from any of these five cases.

51. The majority of the cases in 2013 consisted of fraud involving misuse of programme funds by third parties (18 per cent); followed by burglary, robbery or theft of UNICEF property or funds (17 per cent); followed by inappropriate staff conduct (10 per cent). Each of the other categories accounted for 6 per cent or less, and there were 18 per cent of cases labelled miscellaneous. Management notes that despite the overall increase in cases from 2012 to 2013, medical insurance fraud decreased from 16 cases (24 per cent) in 2012 to 6 cases (4 per cent) in 2013. Ethics training and communication from country representatives focused on medical insurance fraud in 2013, as it had been the most common case the previous year. This effort may have contributed to the significant reduction in cases.

52. The majority of the allegations originated from UNICEF offices in Eastern and Southern Africa (24 per cent), followed by West and Central Africa (23 per cent) and

South Asia (22 per cent). Ethics training is already focused on the two sub-Saharan Africa regions and in 2014 will also focus on South Asia.

53. UNICEF pursues and seeks recoveries of all identified financial losses. The total loss identified in investigated cases in 2013 was $193,909. This amount includes $13,800 due to cases of theft by unidentified offenders. The organization made recoveries amounting to $57,122 as of 31 March 2014 and efforts continued to recover the rest, either from our partners or through insurance.

54. All the cases submitted to the Policy and Administrative Law Section of DHR in 2013 for disciplinary actions were closed by 31 March 2014. Disciplinary actions against staff members arising from OIAI investigations led to the following actions: one dismissal; four written reprimands; two written censures; one written censure with loss of steps in grade; two demotions with deferment of eligibility for promotion for one year; and four cases that resulted in no action. Of the three cases reported by OIAI as still pending on 31 December 2013, two staff members were issued with written censure, to remain on file for five years, and one staff member left the organization, so no further action can be taken.

55. UNICEF management notes that OIAI has requested in 2014 additional permanent resources to meet its estimated resource needs for investigation services.

VII. Management actions to address concluding observations in the 2013 annual report of the UNICEF Audit Advisory Committee

56. UNICEF management appreciates the important contribution of the UNICEF Audit Advisory Committee (AAC) to the effective and independent oversight of the organization. As noted in the annual report of the AAC for 2013, the Committee members regularly interacted with the Deputy Executive Director for Management and other senior managers, and met with the Executive Director during the year.

57. UNICEF management notes that the AAC is satisfied with the overall effectiveness of the internal control environment.

58. UNICEF management notes and appreciates that the AAC has provided specific advice in its 2013 report. Management has given careful consideration to this advice and notes the following:

(a) Agrees that with regard to the Effectiveness and Efficiency initiative, management will pay close attention to change management challenges;

(b) Agrees with the AAC advice on HACT and notes that many of the actions referred to throughout this report focus on strengthening HACT;

(c) Notes the AAC advice that UNICEF should consider requiring the Executive Director to provide an annually signed management assertion regarding the effectiveness of internal controls. Management will, as advised by the AAC, give serious consideration to this suggestion and has done some preliminary research on this topic. The United Nations Finance and Budget Network has commissioned a task force to develop common United Nations standards on the development of a Statement of Internal Controls, which would be included with an

entity's financial statements. UNICEF is a member of this task force and plans on developing an implementation plan this year;

(d) Management notes the AAC advice that the AAC annual report should be separate from the OIAI annual report. Management also notes Executive Board decision 2009/15 requiring the AAC annual report to be annexed to the OIAI annual report;

(e) Management agrees with the AAC advice that it undertake a review of the accountability system presented to the Executive Board in 2009, and notes that through the Effectiveness and Efficiency initiative many assignments of roles and responsibilities have been reviewed and either confirmed or updated within the organizational framework, as required. Management anticipates that following the review of headquarter functions, expected to be completed by the end of 2014, all significant roles and responsibilities will be updated.

Annex

Progress update on audit recommendations that remain unresolved for more than 18 months, as of 31 December 2013

Audit observations for the two offices addressed in paragraphs 8 and 28 of this report	
Recommendations	***Progress update***
Audit: Staff Rotation (report issued in June 2011)	
The Division of Human Resources to: (a) update the policy and procedures for staff rotation and develop a strategy for implementation; (b) establish a process for periodic evaluation of rotation policies.	A revised draft of the policy on Staff Mobility and Rotation has been prepared following consultation with various stakeholders (country offices, regional offices, headquarters divisions, Global Staff Association, Deputy Executive Directors) during the second half of 2013. An Administrative Instruction on Non-Rotational Posts has also been drafted. UNICEF expects the revised policy to be issued before Q4 of 2014.
Audit: The framework for managing policies (report issued in June 2012)	
(a) The Change Management Office (CMO) should, in consultation with the Office of the Executive Director, select a cost-effective governance structure for managing organizational policies, procedures and guidance that balances the practical realities of UNICEF's business model with good practices.	(a) CMO continues working towards closing the recommendations through the work of the Regulatory Framework Task Force which was convened at the beginning of 2013. The Regulatory Framework Discussion Paper has been updated by the Regulatory Framework Task Force and presented to management on 27 February 2014. Management has validated the proposals in the Discussion Paper in principle, requesting some adjustments and additional components, which will be further developed with the Regulatory Framework Task Force. It is anticipated that the proposed policy,

	procedure and guidance will be presented to management in June 2014 for approval. (b) As above.
(b) CMO, in consultation with stakeholders, should establish minimum standards for policy development and management, communicated through a policy or procedure, to be applied across the organization for each point of the policy lifecycle. These standards should provide the guiding principles for assigning lead responsibilities and authorities for developing policies, procedures and guidance by key functional areas. These should also guide policymakers to ensure that policies, procedures and guidance: (i) are promulgated within limited specific document types, defined for the whole organization; (ii) meet common expected standards and procedures regarding content and quality assurance; (iii) are approved by authority based on documentation types; (iv) are communicated in a standard manner and disseminated in a minimum-standard number of languages, as deemed appropriate; (v) are risk-informed, as per the definitions of the ERM policy of the organization; (vi) are periodically reviewed for applicability and effectiveness; and (vii) are stored on the common organizational electronic platform (see recommendation c).	

(c) As part of finalizing the overall framework for managing UNICEF's regulatory content, CMO, in consultation with ITSS, should define a common organizational platform (for approval by the governance structure designated as per recommendation (a) for storing all policies, procedures and guidance. As part of this process, CMO should evaluate the scalability and inherent controls of the platform chosen to host the content. It should also review the potential to design the controls and the responsibilities for authors, approvers and administrators.	(c) Options on the development of a corporate Information, Document and Records Management (IDRM) architecture were presented at the November 2013 Global Management Team meeting. Management requested a more thorough report on the benefits and implementation plan of the IDRM. At the same time, consultants were retained to analyse and rationalize the IT Investment Project proposals, many of which had implications for IDRM in UNICEF. A proposal reflecting the findings of the studies made by the consultants is being prepared and will be presented to management by April 2014. The proposal will stress linkages to the Regulatory Framework.